CREATIVE INNOVATION
PRODUCT AND PRICING STRATEGIES
MA – 204

GENERAL OBJECTIVES OF THE SUBJECT
At the end of the course, individuals will examine the principles of Product & Pricing and apply them within the companies need critically reflect Marketing behavior within companies *and* their impact on the development of this course.

9. PRODUCT & PRICING STRATEGIES

9.1 Overview of Products & Pricing
9.2 Classifying Goods and Services
9.3 Product Mix
9.4 The Product Life Cycle
9.5 Stages in New-Product Development

9.1 <u>Overview of Products & Pricing</u>

This lesson deals with the first two components of a marketing mix: product strategy and pricing strategy. Marketers broadly define a **product** as a bundle of physical, service, and symbolic attributes designed to satisfy consumer wants. Therefore, product strategy involves considerably more than producing a physical good or service. It is a total product concept that includes decisions about package design, brand name, trademarks, warranties, guarantees, product image, and new-product development.

The second element of the marketing mix is pricing strategy. **Price** is the exchange value of a good or service. An item is worth only what someone else is willing to pay for it. In a primitive society, the exchange value may be determined by trading a good for some other commodity. A horse may be worth ten coins; twelve apples may be worth two loaves of bread. More advanced societies use money for exchange. But in either case, the price of a good or service is its exchange value.

Pricing strategy deals with the multitude of factors that influence the setting of a price.
This chapter begins by discussing the classification of goods and services, the product

mix, and the product life cycle. We then explain how products are developed, identified, and packaged and the service attributes of products. The second part of the chapter focuses on the pricing of goods and services, including pricing objectives, how prices are set, and different types of pricing strategies.

9.2 Classifying Goods and Services

Marketers have found it useful to classify goods and services because each type requires a different competitive strategy. Goods and services are classified as either consumer or industrial, depending on the purchaser and use of the particular item. Consumer and industrial product classifications can also be subdivided.

Classifying Consumer Goods - A variety of classifications have been suggested for consumer goods, but the system most typically used has three subcategories: convenience goods, shopping goods, and specialty goods. This system, based on consumer buying habits, has been used for about 70 years.

Convenience goods are products the consumer seeks to purchase frequently, immediately, and with a minimum of effort. Items stocked in 24-hour convenience stores, vending machines, and local newsstands are usually convenience goods. Newspapers, chewing gum, magazines, milk, beer, bread, and cigarettes are all convenience goods.

Shopping goods are products purchased only after the consumer has compared competing goods in competing stores on bases such as price, quality, style, and color. A young couple intent on buying a new television may visit many stores, examine perhaps dozens of TV sets, and spend days making the final decision. The couple follows a regular routine from store to store in surveying competing offerings and ultimately selects the most appealing set.

Specialty goods are particular products desired by a purchaser who is familiar with the item sought and is willing to make a special effort to obtain it. A specialty good has no reasonable substitute in the mind of the buyer. The nearest BMW dealer may be 40 miles away, but a buyer might go there to obtain what they considers one of the world's best-engineered cars.

This classification of consumer goods may differ among buyers. A shopping good for one person may be a convenience good for another. Majority buying patterns determine the item's product classification.

Marketing Strategy Implications - The consumer goods classification is a useful tool in marketing strategy. For example, once a new lawn edger has been classified as a shopping good, insights are gained about its marketing needs in promotion, pricing, and distribution methods.

Classifying Industrial Goods - The five main categories of industrial goods are ***installations, accessory equipment, component parts and materials, raw materials,*** and ***supplies***. While consumer goods are classified by buying habits, classification of industrial goods is based on how products are used and product characteristics. Goods that are long-lived and usually involve large sums of money are called ***capital items*.** Less costly goods that are consumed within a year are referred to as *expense items*.

Installations are major capital items such as new factories, heavy equipment and machinery, and custom-made equipment. Installations are typically used for the production of other items. For example, General Motors purchased an automated monorail system from Litton Industries to transport cars on the GM assembly line. Installations are expensive and often involve buyer/seller negotiations that may last several years before a purchase decision is made.

Accessory equipment includes capital items that are usually less expensive and shorter-lived than installations. Examples are hand tools and word processors. Some accessory equipment, such as a portable drill, is used to produce other goods and services, while other equipment, such as a desk calculator, is used in administrative and operating functions.

Component parts and materials are industrial goods that become part of a final product. Seagate Technology, for example, makes magnetic disk drives that are sold as a component part to manufacturers of small computers. In some cases, component parts are visible in the finished good, such as the Goodyear tires used on tractors or automobiles. In other cases, component parts and materials are not readily seen.

Raw materials are similar to component parts and materials because they are used in the production of a final good. Raw materials include farm products such as cotton, wheat, cattle, and milk, and natural materials such as iron ore, lumber, and coal. Because most raw materials are graded, buyers are assured of standardized products of uniform quality.

Supplies are expense items used in a firm's daily operation, but they do not become part of the final product. Supplies include products such as paper clips, cleaning compounds, light bulbs, stationery, and bailing wire. These items are purchased regularly and little time is spent on the purchase decision.

Marketing Strategy Implications - Each group of industrial goods requires a different marketing strategy. Because most installations and many component parts are marketed directly from the manufacturer to the buyer, the promotional emphasis is on personal selling rather than on advertising. By contrast, marketers of supplies and accessory equipment rely more on advertising to promote their goods, which are frequently sold through an intermediary such as a wholesaler. Producers of installations and component parts may involve their customers in new-product development, especially when the industrial good is custom made. Finally, firms marketing supplies and accessory equipment place greater emphasis on competitive pricing strategies than do other industrial goods marketers, who concentrate on product quality and servicing.

Classifying Services - Services can be classified as either consumer or industrial. Taco Bell’s, gas stations, hair salons, childcare centers, and shoe repair shops provide services for consumers. The Pinkerton security patrol at a factory and Kelly Services' temporary clerical workers are examples of industrial services. In some cases, a service can accommodate both consumer and industrial markets. For example, when ServiceMaster employees clean the upholstery in a home, it is a consumer service. When a ServiceMaster crew cleans the painting system and robotics in a manufacturing plant, it is an industrial service.

9.3 <u>Product Mix</u>

CREATIVE INNOVATION
PRODUCT AND PRICING STRATEGIES
MA – 204

Product mix is the assortment of goods and/or services a firm offers **raw materials** Farm and natural products used in producing final goods. **Supplies** Expense items needed in the firm's daily operation but not part of the final product.

Strategy, Convenience, Shopping Specialty & Factor Good - Store image unimportant is very important. Prices low relatively high promotion by manufacturer and retailer. It channel many whole-relatively very few length sellers and wholesalers. Although Borden Inc. is best known for marketing dairy products, the firm's product mix also includes pasta, snack items, niche grocery products (Campfire marshmallows and ReaLemon juice), nonfood consumer goods (Rain Dance car-care products, Elmer's glue, wallpaper), and specialty industrial chemicals (adhesives, forest product resins, food-wrap items).

The product mix is a combination of product lines and individual offerings that make up the product line. A **product line** is a series of related products. Coleman's product mix includes other lines of outdoor recreational equipment, such as canoes, sleeping bags, cookers, tents, and camping trailers.

Marketers must continually assess their product mix to ensure company growth, to satisfy changing consumer needs and wants, and to adjust to competitors' offerings. Consider how these factors have influenced the product mix of Bic Corporation. Most of Bic's sales come from three product lines: disposable lighters, shavers, and pens. Lighters account for about 40 percent of Bic's $290 million in sales. But Bic marketers realized the growth prospects for lighters are dim, given the dwindling number of smokers and the public's increasing antismoking sentiment. They expanded the lighter line by adding a smaller version, the Mini Bic, to increase the firm's share of the market. But to build overall company sales, they broadened their product mix by adding a new product line— quarter-ounce bottles of perfume. With the new line, Bic marketers hope to capture part of the huge $3 billion fragrance market. In response to new products from foreign and domestic competitors, Bic expanded its line of pens and shavers. Bic added a roller pen after Mitsubishi Pencil Company introduced metal-point roller pens to the United States and gained 10 percent of the pen market. Bic's shaver sales dropped 5 percent after Gillette introduced the Microtrac razor. In an effort to recapture lost sales, Bic developed a similar shaver designed to reduce nicking.

Product mixes and product lines undergo constant change. To remain competitive, marketers look for gaps in their assortment and fill them with new products or modified versions of existing ones. A useful tool used by marketers in making product decisions is the product life cycle.

9.4 <u>The Product Life Cycle</u>

Successful goods and services, like people, pass through a series of stages from their initial appearance to death; this progression is known as the **product life cycle**. Humans grow from infants into children; they eventually become adults and gradually move to retirement age and, finally, death. The four stages through which successful products pass are introduction, growth, maturity, and decline.

The product life cycle concept provides important insights for the marketing planner in anticipating developments throughout the various stages of a product's life. Knowledge that profits assume a predictable pattern through the stages and that promotional emphasis must shift from product information in the early stages to heavy promotion of competing brands in the later ones should improve product planning decisions. Since marketing programs will be modified at each stage in the life cycle, an understanding of the characteristics of all four product life cycle stages is critical in formulating successful strategies.

In the early stages of the product life cycle, the firm attempts to promote demand for its new market offering. Because neither consumers nor distributors may be aware of the product, marketers must use promotional programs to inform the market of the item's availability and explain its features, uses, and benefits. New-product development and introductory promotional campaigns are expensive and commonly lead to losses in the first stage of the product life cycle. Yet these expenditures are necessary if the firm is to profit later.

Growth - Sales climb quickly during the product's growth stage as new customers join the early users who are now repurchasing the item. Person-to-person referrals and continued advertising by the firm induce others to make trial purchases. The company also begins to earn profits on the new product. But this encourages competitors to enter the field with similar offerings. For example, after the

successful
introduction of Lea & Perrins' sauce, H. J. Heinz and French's began marketing similar fish and poultry sauces. Price competition appears in the growth stage, and total industry profits peak in the later part of this stage. To gain a larger share of a growing market, firms may develop different versions of a product to target specific segments. Thomas J. Lipton added two variations—no sugar Homestyle and chunky vegetable Garden style—to its original-recipe Ragu spaghetti sauce.

Maturity - The industry sales at first increase in the maturity stage, but eventually reach a saturation level at which further expansion is difficult. Competition also intensifies, increasing the availability of the product. Firms concentrate on capturing competitors' customers, often dropping prices to further their appeal. Sales volume fades late in the maturity stage, and some of the weaker competitors leave the market.

Firms spend heavily on promoting mature products to protect their market share and to distinguish their products from those of competitors. For example, Goodyear Tire & Rubber Company spends between $20 million and $25 million each year on tire and service center advertising to hold its market leadership position in replacement tires for cars and light trucks. Its "Nobody fits you like Goodyear" campaign focuses on serving customer needs rather than on product features and benefits. The approach is intended to distinguish Goodyear from Firestone, Goodrich, Armstrong Rubber, and other competitors.

Decline - Sales continue to fall in the decline stage of the product life cycle. Profits also
decline and may become losses as further price cutting occurs in the reduced market for the item. The decline stage is usually caused by a product innovation or a shift in consumer preferences. The decline stage of an old product can also be the growth stage for a new product. In the recording industry, for example, long-playing 33 rpm records and 45 rpm records have declined, casset recordings are in the decline stage and compact discs are in the growth stage.

Extending the Product Life Cycle - Sometimes it is possible to extend a product's life cycle considerably beyond what it would otherwise be. Some useful strategies include the following:

- Increase the frequency of use. Persuading consumers that they need to have additional smoke alarms and flashlights may result in increased purchases by each household. Some watchmakers are attempting to increase customers' purchase frequency by promoting watches as a fashion accessory rather than merely a time-keeping device.
- Add new users. Introducing the product abroad might accomplish this. Gerber Products increased the size of its baby-food market by creating specialty foods for foreign consumers, such as strained sushi for Japanese and strained lamb brains for Australian babies. To increase the number of users in the United States, Gerber developed special versions such as guava and mango for the growing Hispanic market.

- Find new uses for the product. Arm & Hammer baking soda is a classic example. Its original use in baking has been augmented by its newer uses as a refrigerator freshener, flame extinguisher, first-aid remedy, denture cleaner, cleaning agent, and pool pH adjuster.

- Change package sizes, labels, and product quality. Offering smaller portable color televisions led to many households' acquiring two or more models. Many food marketers are offering smaller-size packages that appeal to one-person households.

The marketer's objective is to extend the product life cycle as long as the item is profitable. Some products can be highly profitable during the later stages of their life cycle, since all of the initial development costs have already been recovered.

The product life cycle concept is a useful tool in designing a marketing strategy that is flexible enough to match the varying marketplace characteristics at different life cycle stages. For instance, knowledge that advertising emphasis will change from informative to persuasive as the product faces new competitors during the growth stage permits the marketer to anticipate competitive actions and make necessary adjustments.

These competitive moves may involve price (the significant reduction in the price of VCRs), distribution (the significant increase in the number of Japanese retail stores handling Kodak film to compete with Fuji film in its home base), product variations (Honda's introduction of the Acura Legend, an executive luxury car, to compete with Mercedes-Benz and BMW in the United States), or promotion (AT&T's shift from informative product advertising to persuasive advertising in its competition with MCI and Sprint for long-distance customers).

New-Product Development - The creation of new products is the lifeblood of an organization. ***Products do not remain economically viable forever***, so new ones must be developed to assure the survival of an organization. For many firms, new products account for a sizable part of growth in sales and profits. The 260 new products General Mills introduced in the past ten years account for nearly one-third of the firm's U.S. food sales. Each year, thousands of new products are introduced. Some new products, such as the compact disc, represent major technological breakthroughs, while others are improvements or variations of existing products. The compact disc with graphics is a product improvement. Marketers made use of the unused space that exists on all compact discs by adding song lyrics and artist biographies that can be displayed on a television screen.

New-product development is expensive, time consuming, and risky. Only about one-third of new products become marketplace successes. Products fail for a number of reasons. Some are not properly developed and tested, some are poorly packaged, and some have inadequate promotional support or distribution. Other products fail because they do not satisfy a consumer need or want.

In the 1970s, Canfield Company, a regional soft-drink maker, created what the company thought would be a hit product—a banana-flavored drink. Canfield marketers gave the product a catchy name—Anna Banana—hired an artist to create an original painting for the can, and developed a coordinated marketing campaign to support the product. To publicize the drink, they sent key supermarket buyers 100 pounds of bananas and flew airplanes with advertising banners over local highways, beaches, and football stadiums. But at the supermarket, no one bought Anna Banana. Consumers had no desire for a banana-flavored drink. By contrast, Canfield's Diet Chocolate Fudge succeeded because of its wide appeal to dieters who love the taste of chocolate.

CREATIVE INNOVATION
PRODUCT AND PRICING STRATEGIES
MA – 204

Most newly developed products today are aimed at satisfying specific customer needs or wants. New-product development has become more efficient and cost effective than it was in the past because marketers use a systematic approach in developing new products.

9.5 Stages in New-Product Development

The new-product development process has six stages:

1) new-product ideas
2) screening
3) business analysis
4) product development
5) test marketing, and
6) commercialization.

Each stage requires a **"go/no go" decision"** by management. ***New-Product Ideas.*** The starting point in the new-product development process is the generation of ideas for new offerings. Ideas come from many sources, including customers, suppliers, employees, research scientists, marketing research, inventors outside the firm, and competitive products. *The most successful ideas are directly related to satisfying a customer need*. A recent new-product success is Certified Stainmaster Carpet by E.I. du Pont de Nemours & Company. Du Pont's marketing research indicated consumers wanted carpets that were more stain resistant, and the company developed a product to fill that need.

Screening - This stage deals with the elimination of ideas that do not mesh with overall company objectives or cannot be developed given the company's resources. Some firms hold open discussions of new-product ideas among representatives of different functional areas in the organization. Spectrum Control Inc., a producer of electronic filters and other specialty electronic products, holds meetings once every three months during which product managers, company scientists, and other managers evaluate new-product ideas.

Business Analysis - Further screening is done in this stage. Does the idea fit with the
company's product, distribution, and promotional resources? The analysis also

involves
assessing the new product's potential sales, profits, growth rate, and competitive strengths. Sometimes concept testing is used at this stage.

Concept testing refers to marketing research designed to solicit initial consumer reaction to a new-product idea before the product is developed. Seven-Up Company marketers used concept testing to measure consumer attitudes and perceptions about a new soft-drink idea. They added maraschino cherry juice to 7Up and served the drink to consumers, who liked both the flavor and the drink's pale pink color. This was a repeat of a non-alcholic drink called a **"Shirley Temple."** These positive responses led to development of Cherry 7Up, one of the most successful new products in recent years.

Product Development - An actual product is created at this stage. It is then subjected to a series of tests and revised. Both the product's actual features and its consumer perceptions are studied. Inadequate testing during the development stage can doom a product— and even a company—to failure. Such was the fate of an all-natural shampoo and conditioner marketed by Nature's Organics Plus Inc.

The firm previously had launched a line of hair-care products that brought in annual sales of $23 million. Several years later, it introduced the all-natural shampoo and conditioner without fully testing them. Retailers bought $11 million worth of the products. Yet, without preservatives, the shampoo and conditioner self-destructed on store shelves and turned an unappealing yellow-green color. The company had to buy back most of the products from retailers. To avoid bankruptcy, the owner sold the company's ssets and personally lost more than $1 million.

Testing. The product is actually sold in a limited area during the **test marketing** phase. The company is examining both the product and the marketing effort they are using to support it. Cities or television coverage areas that are typical of the targeted market segments are selected for such tests. Test-market results help managers determine the product's likely performance in a full-scale introduction. Kraft test marketed its spicy Bull's-Eye barbecue sauce to determine whether it could capture 5 percent of the sauce market and to explore a premium pricing strategy and two levels of national advertising spending ($9 million and $5 million).

Test results indicated Kraft would get the market share it desired, could put a high price on the product, and could use the lower advertising spending level. Not all products, however, are test marketed. Colgate-Palmolive introduced two major new products—Fab 1 Shot, an all-in-one laundry product, and Palmolive Automatic, a liquid dishwasher detergent—without test marketing them in order to beat competitors to the marketplace.

Commercialization - This is the stage at which the product is made generally available in the marketplace. Sometimes it is referred to as a product launch. Considerable planning goes into this stage. The firm's promotional, distribution, and pricing strategies must all be geared to support the new-product offering.

Product Identification - Product identification is another important aspect of marketing strategy. Products are identified by brands, brand names, and trademarks. A **brand** is a
name, term, sign, symbol, design, or some combination thereof used to identify the products of one firm and to differentiate them from competitive offerings. Wolverine World Wide identifies its brand of footwear with the symbol of a bassets hound and the name Hush Puppies

A **brand name** is that part of the brand consisting of words or letters included in a name used to identify and distinguish the firm's offerings from those of competitors. The brand name is the part of the brand that can be vocalized. A recent survey revealed the most recognizable brand names in the United States are Coca- Cola, Campbell's, Pepsi-Cola, AT&T, McDonald's, American Express, Kellogg's, IBM, Levi's, and Sears.

A **trademark** is a brand that has been given legal protection. The protection is granted solely to the brand's owner. Trademark protection includes not only the brand name, but also pictorial designs, slogans, packaging elements, and product features such as color and shape. Rolls-Royce Motor Cars Inc. has received trademark protection not only on the Rolls-Royce brand name, mascot, and badge, but also for the automobile's radiator grille.
Brands are important in developing a product's image. If consumers are aware of a

particular brand, its appearance becomes advertising for the firm. The RCA trademark of the dog at the phonograph, for example, is instant advertising to shoppers who spot it in a store. Successful branding is also a means of escaping some price competition. Well-known brands often sell at a considerable price premium over their competition.

Selecting an Effective Brand Name - Good brand names are easy to pronounce, recognize, and remember. Short names like Gulf, Crest, Kodak, Visa, and Avis meet these requirements. Multinational marketing firms face a real problem in selecting brand names in that an excellent brand name in one country may prove disastrous in another.

Every language has a short "*a*," so *Coca-Cola* and *Texaco* are pronounceable in any tongue. But an advertising campaign for E-Z washing machines failed in the United Kingdom because the British pronounce z as "zed." An effective brand name for a line of high-quality bakery products marketed by Anheuser-Busch in Spain was “Bimbo”. But the name would be less effective in the United States, where Anheuser-Busch uses the Earth Grains brand name for its premium bakery goods. Brand names should give the right image to the buyer. *Accutron* suggests the quality of the high-priced and accurate Bulova timepiece. Lite beer by Miller creates an image of a beer with reduced calories and carbohydrates. Federal Express suggests a fast delivery service that covers a broad geographic range. Dep Corporation marketers recently changed the brand name of Ayds diet candy to Diet Ayds because they were concerned that the single word *Ayds* would project a negative image to consumers who might associate it with the similar sounding AIDS virus.

Brand names must also be legally protectable. Trademark law states that brand names cannot contain words in general use, such as *television*, or *automobile*. Generic words—words that describe a type of product—cannot be used exclusively by any organization. The task of selecting an effective and legally protectable brand name is
becoming more difficult as the number of new-product introductions increases each
year. In 1996, about 70,000 new-product names were registered with the U.S.

Patent
and Trademark Office, double the number of 20 years ago. Many firms hire professional name smith consultants to create new-product names. By using computers to link word fragments into new combinations, one such firm, Name Lab, generated Compaq computers and Honda's Acura.

Brand Categories - A brand offered and promoted by a manufacturer is known as a **national brand**, or a manufacturer's brand. Examples are Tide, Jockey, Gatorade, Swatch, and DoveBar. But not all brand names belong to manufacturers. Some are the property of retailers or distributors.
A **private brand** (often known as a house, distributor, or retailer label) identifies a product that is not identified as to manufacturer but instead carries the retailer's label. The Sears line of DieHard batteries and The Limited's Forenza label are examples. Many retailers offer a third option to manufacturers' and private brands: the **generic product**. These items have plain packaging, minimal labeling, and little if any advertising, and meet minimum quality standards.

Generic products sell at a considerable discount from manufacturers' and private brands. Generics were developed in Europe and first appeared in the United States in 1977. Sales of generic products peaked in the early 1980s when inflation was high but have declined steadily since then as the economy has improved.

Stages of Brand Loyalty - Although branding is very important, the degree of brand loyalty varies widely from product to product. In some categories, consumers insist on a specific brand. A home food shopper, for example, may insist on buying Birds Eye Frozen Foods. For other purchases, such as paper towels, they might readily accept a generic product. Brand recognition, brand preference, and brand insistence are three stages used to measure brand loyalty.

Brand recognition simply means that the consumer is familiar with the product or service. Free samples and discount coupons are often used to build this familiarity. A recognized brand is more likely to be purchased than an unknown one.

Brand preference is the stage of brand loyalty at which the consumer will be loyal if the brand is available. Many consumer products like beer and soft drinks fall into this category. A considerable portion of all marketing expenditures are intended to build brand preference.

Brand insistence is the stage of brand loyalty at which consumers will accept no substitute for their preferred brand. If it is not readily available locally, the consumer will special-order it from a store, or turn to mail-order or telephone buying. Brand insistence is the ultimate degree of brand loyalty, and few brands obtain it.

Family Brands and Individual Brands - Another branding decision marketers must make is whether to use a family branding strategy or an individual branding strategy.

A **family brand** is a single brand name used for several related products. Kitchen Aid, Johnson & Johnson, Xerox, and Dole Food Company use a family brand name for their entire line of products. When a firm using family branding introduces a new product, both customers and retailers recognize the familiar brand name. The promotion of individual products within a line benefit all the products because the family brand is well known.

Some firms utilize an **individual branding** strategy by giving products within a line different brand names. For example, Procter & Gamble has individual brand names for its different laundry detergent products—Tide, Cheer, Dash, and Oxydol. Each brand targets a unique market segment. Consumers who want a cold-water detergent can buy Cheer rather than Tide or Oxydol instead of purchasing a competitor's brand. Individual branding stimulates competition within a firm and enables the company to increase overall sales.